THE 2015 AFI GLOBAL POLICY FORUM REPORT

INSPIRING INNOVATION TO ADVANCE INCLUSION

Alliance for Financial Inclusion
Bringing smart policies to life
BANCO DE MOÇAMBIQUE

Contents

Foreword

The 2015 AFI Global Policy Forum, hosted by Banco de Moçambique, brought together over 500 senior financial inclusion policymakers, regulators, international organizations and private sector partners to Maputo, Mozambique. This year's GPF, *Inspiring Innovation to Advance Inclusion*, was the largest and most diverse forum the AFI Network has ever held.

Over the last year, the rising profile of financial inclusion on the global development agenda has driven demand for membership in AFI, and at the Annual General Meeting held in advance of the GPF, members agreed to open the network to high-income emerging countries and regional organizations made up of current or potential AFI members. This bold decision will create new opportunities for knowledge exchange and peer learning.

A highlight of the AGM was the announcement that AFI is on the verge of being registered as an international organization under Malaysian law, at which point it will become a fully independent, member-owned organization. A sense of ownership was palpable as a record number of members discussed the future of AFI as an independent organization and, for the first time, voted to elect new members to AFI's Board of Directors. Daniel Schydlowsky, Chair of the AFI Steering Committee, hailed the meeting as a great occasion and a sign of maturity that we are "running our own show." He thanked the AFI Management Unit, Bank Negara Malaysia, GIZ, and especially the AFI Subcommittee on Independence, for making AFI's transition to independence and its new home in Kuala Lumpur a seamless process.

Another highlight was the adoption of the Maputo Accord, an addition to AFI's Maya Declaration, proposed by Banco de Moçambique's Governor, Ernesto Gouveia Gove. The Governor made a passionate case for SMEs and their role in driving employment, economic development and innovation. He noted that supporting SME finance would strengthen economic development and that the Maputo Accord would benefit all AFI countries. Members unanimously adopted the Accord, making SME finance a priority area for the network.

Green finance and gender were two of the most prominent and well-attended sessions. Members recognized that environmental risks are a growing concern of central banks and financial regulators, and learned that developing and emerging countries are leading the way in innovative financing of a green, sustainable economy. Members were also united in their recognition that societies cannot function properly if more than half the population is left behind, and that bridging the gender gap in financial inclusion needs to be a priority. In 2016, AFI will explore the appropriate platforms to address these new areas of interest.

As has become a tradition at the GPF, members made new and revised commitments to the Maya Declaration on the last day of the event. Several focused specifically on SME finance in line with the Maputo Accord, and the National Reserve Bank of Tonga, Central Bank of Suriname and SUGEF Costa Rica all announced new commitments.

As AFI continues its work over the next year, it will embrace the spirit of innovation in Maputo, allow space to experiment and have bold aspirations for financial inclusion. AFI members look forward to the next time they meet, when the Reserve Bank of Fiji hosts the network at the 8th Global Policy Forum, in Nadi, Fiji, in September 2016.

Annual General Meeting

The fourth Annual General Meeting (AGM) of AFI opened with welcoming remarks from Governor Ernesto Gouveia Gove of Banco de Moçambique, Daniel Schydlowsky, AFI Steering Committee Chair, and Alfred Hannig, AFI Executive Director.

Members heard reports on AFI's progress, particularly the network's impact on global dialogue, as more heads of state and international organizations are highlighting the importance of financial inclusion on the development agenda and for economic growth and stability. The recent Addis Ababa Accord, endorsed by the United Nations, recognized AFI as the key platform for peer learning and knowledge exchange in financial inclusion.

The AFI Management Unit and representatives from the Budget and Finance Committee reported on AFI's activities, network achievements and financials in 2015, and the status of AFI's legal registration in Malaysia.

Other presentations and discussions during the day focused on AFI membership fees, governance and board elections. Another key topic was AFI's membership criteria, with members debating whether to expand the network and create more opportunities for knowledge exchange and peer learning on financial inclusion.

AFI MEMBER DELELGATE VOTE

79%	voted in favor of engaging primary financial regulators from high-income emerging countries.
68%	voted in favor of creating a platform to engage high-income advanced countries.
71%	voted to create a new fee category for members from high-income emerging countries.
79%	voted in favor of creating a new membership category for regional bodies.

"Today, we decided to bring in higher income countries, regional organizations we already belong to, and to engage with developed nations more systematically. This represents an important step towards a more inclusive and truly global policy leadership alliance."

Daniel Schydlowsky
Superintendent SBS Perú

A warm welcome in Maputo

Delegates at Annual General Meeting

Opening Ceremony

The opening ceremony started the GPF on a high note with a welcome address by the President of Mozambique, Filipe Nyusi, who thanked participants for coming and noted that the presence of so many financial inclusion leaders in the city had "made Maputo the financial capital of the world." The President joined Governor Gove in ringing in the official opening with the traditional GPF gong.

"Today you have made Maputo the financial capital of the world."

Filipe Nyusi, President of Mozambique

The keynote address was delivered by Madame Graça Machel founder of New Faces New Voices, who spoke on the benefits of bridging the financial inclusion gender gap, noting that the impact would be equivalent to adding another China and India to the formal financial system. Madame Graça also stressed that financial inclusion was more than just an issue of economic empowerment. "Entry into the formal economy sends a social message: it says this citizen counts," she said.

"Entry into the formal economy sends a social message: it says this citizen counts."

Madame Graça Machel, founder of New Faces New Voices

The Maputo Accord

SPEAKERS

Governor Ernesto Gouveia Gove, Banco de Moçambique**, and Deputy Governor Ronald Waas,** Bank Indonesia

MODERATOR

Kennedy Komba, Bank of Tanzania

The latest update to the Maya Declaration — the Maputo Accord — was unveiled in this session, formalizing the AFI Network's commitment to SME finance as a key policy pillar and path to greater financial inclusion.

THE IMPACT OF SMEs ON THE GLOBAL ECONOMY

SMEs contribute up to 25% of employment and 33% of GDP in developing economies. SMEs, particularly in developing economies, account for a significant proportion of economic growth, development and employment creation, and contribute quite significantly to issues related to poverty reduction and inequality.

However, access to finance is one of the key barriers to the growth of SMEs. Seventy percent of SMEs cite lack of access to finance as an impediment to growth, and another 15% report they are underfinanced.

"If SMEs prosper, they can put nations to work, create a solid base of tax revenue, and be the primary driver of future growth." – Governor Ernesto Gove, Banco de Moçambique

Governor Ernesto Gove, Banco de Moçambique

A FOCUS ON SME FINANCE: THE RATIONALE

Strong member demand. SME finance has become a major area of focus in the AFI Network in recent years. Consultation at the 2012 Global Policy Forum in Cape Town revealed a strong majority of the network was in favor of developing SME finance peer learning services, with a focus on the role of central banks. Since then, AFI has held a Policymakers' Roundtable on SME Finance, established the SME Finance Working Group (SMEFWG) to serve as a focal point for peer learning, developed an SME Finance Grants Program and, in partnership with Bank Negara Malaysia, led successful training programs on SME finance.

Member commitments to SME finance. Although not an original policy pillar of the Maya Declaration, a significant number of AFI members have made individual commitments to SME finance. Under the Maya Declaration, Papua New Guinea is realizing the potential of the SME sector in the national economy, establishing several women's banks to provide direct credit to women, who traditionally have more difficulty accessing it. They are also focusing on microcredit for small enterprises. Meanwhile, the Palestinian Monetary Authority has made access to finance for SMEs a central policy priority and is developing an SME database.

The impact of SMEs. As the vast majority of all enterprises, SMEs are core to job creation. In many countries, formal employment is low and the development of the SME sector needs to be systematically facilitated. There is widespread recognition that the development of the SME sector can have a positive impact on the empowerment of women and youth, and regulators have an enabling role to play in this, from facilitating licensing to reducing barriers to innovation.

> "The SMEs of today are the large industries of tomorrow. They are the largest employers and the greatest innovators."
>
> **Governor Ernesto Gove**
> Banco de Moçambique

The Maputo Accord continued

MAPUTO ACCORD: THE NEXT LOGICAL STEP

There is consensus among AFI members to add SME financing as a new policy pillar of the Maya Declaration, and to devote their energy and capacity to supporting SMEs at the national level.

The following text was adopted by AFI members in Maputo:

"Supporting access to finance for small and medium enterprises in acknowledgement of their shared objective with financial inclusion in promoting sustainable and inclusive development as well as spurring innovation."

The adoption of the Maputo Accord:

- Acknowledges the importance of SME finance within a National Financial Inclusion Strategy and its role in job creation and poverty alleviation
- Serves as a recognition of the successful development of SME finance peer learning services within AFI, and the early achievements of the SME Finance Working Group
- Provides clarity at the global level by highlighting to the G20 and others the prominence of the topic of SME Finance within the AFI Network, and the powerful role the Maya Declaration is playing in mobilizing national commitments for SME finance and in other financial inclusion policy areas

The Maputo Accord is a natural follow-on from Turkey's G20 Presidency, which has made support for SMEs a key theme.

"SMEs are the vast majority of all enterprises. If we want to reach our financial inclusion goals, we must include SMEs."

Deputy Governor Ronald Waas
Bank Indonesia

Kennedy Komba, Bank of Tanzania

Deputy Governor Ronald Waas, Bank Indonesia

Turkey's G20 Presidency Agenda: Outreach with AFI Members

SPEAKERS

Ayşen Kulakoğlu, GPFI Co-chair and Head of Department, Undersecretariat of Treasury, Turkey; **Susanne Dorasil,** German Federal Ministry for Economic Cooperation and Development (BMZ); **Yunita Sari,** Bank Indonesia; **and Ashraful Alam,** Bangladesh Bank

MODERATOR

Norbert Mumba, Deputy Executive Director, AFI

The current G20 Presidency of Turkey is prioritizing support for access to finance by SMEs in low-income developing countries (LIDCs) through the infrastructure of the SME Compact. This specially convened session following the AGM gave AFI members the opportunity to hear the priorities of the Turkish G20 Presidency, and consider how the G20 and other global partners can best support LIDCs in the AFI Network to implement effective policies for SME access to finance.

Ayşen Kulakoğlu of Turkey's Undersecretariat of Treasury set out why Turkey had chosen to elevate support for the SME sector as a central priority of the G20 agenda, complementing the three I's of the Turkish Presidency: inclusiveness, implementation and investment. "SMEs play a key role in employment and competitiveness, and for the first time are an important part of the G20 agenda. We are trying to improve access to finance and address financial and regulatory needs."

In the ensuing panel discussion, the newly elected chair of AFI's SME Finance Working Group (SMEFWG), Yunita Sari of Bank Indonesia, and Co-chair Ashraful Alam of Bangladesh Bank, highlighted the achievements of the SMEFWG to date, including the publication of the SME Finance Data Indicators, and made recommendations on topics the G20 should add to its agenda, particularly the emerging issue of non-bank financing of SMEs, such as crowdfunding.

The session concluded with the panel agreeing that the G20 and AFI are natural partners in advancing the global agenda for SMEs, thereby helping to fulfill the G20 objectives of economic growth, job creation and poverty reduction.

"A lot of work is being done, and we as regulators can do a lot more. We are not alone in the AFI Network — the G20 Presidency under Turkey has prioritized financial inclusion and has made support for SMEs a key theme of their presidency."

Norbert Mumba
Deputy Executive Director of AFI

"Through the GPFI, the G20 could play a big role in improving SME access to finance — by developing proportionate prudential frameworks and banking standards focused on access to finance, while also considering the prudential framework. I believe we can learn from the G20 experience and how they have implemented advanced technology to reach more people and improve financial access."

Yunita Sari
Bank Indonesia

Ayşen Kulakoğlu,GPFI Co-chair and Head of Department, secretariat of the Turkish Treasury

Inspiring Innovation to Advance Inclusion

SPEAKERS

Alfred Hannig, Executive Director of AFI; **Governor Benno Ndulu,** Bank of Tanzania; **James Mwangi,** Managing Director and CEO, Equity Bank; **and Stephen Kehoe,** SVP, Head of Global Financial Inclusion, Visa Inc.

MODERATOR

Tilman Ehrbeck, Partner, Omidyar Network

What inspires us to take risks and seek innovative solutions?

What challenges can financial inclusion innovators expect and which are harder to anticipate?

This panel discussion featured the experiences of four innovative leaders from the AFI Network, who described the inspirations, ideas, processes and products that have helped to advance financial inclusion.

Alfred Hannig, Executive Director of AFI

James Mwangi, Managing Director and CEO, Equity Bank

Governor Benno Ndulu, Bank of Tanzania

Stephen Kehoe, SVP, Head of Global Financial Inclusion, Visa Inc.

Leaders reflect on turning inspiration into reality

Inspiring Innovation to Advance Inclusion continued

ALFRED HANNIG ON AFI'S JOURNEY TO INDEPENDENCE

Moving from a start-up to a pre-eminent policy leadership alliance in just seven years required the right mindset, a long-term view and sound learning practices.

Why AFI? What inspired you?

In the early days, many thought AFI was a far-fetched idea. Making that innovative idea a reality required:

> **A shared long-term vision.** We needed to promote a common vision, and GIZ gave us the support and independence to do this. We started with blue sky thinking — what would we do if there were no limits? But it was not enough to just talk — we needed to craft a long-term vision and work toward a common goal. In AFI's case, this was a permanent independent network.

> **Allies.** I talked to regulators all over the world and found they were not only willing to get involved, but were excited about the possibility of AFI.

What's next?

Translating AFI's culture of innovation and openness into a new institutional setting. We need to formalize without becoming formal, and sometimes this is a struggle. Innovation happens when we can be flexible, responsive, apolitical and unbureaucratic. We are lucky to have a network with strong opinions, and this is an invaluable resource for new ideas and allows us to spot and address emerging issues and trends, such as crowdfunding and cybersecurity.

"AFI was a successful innovation because of three factors: a good (crazy) idea, strategic partners and allies."

Alfred Hannig
Executive Director of AFI

GOVERNOR BENNO NDULU ON DOUBLING FINANCIAL ACCESS IN TANZANIA

From 2009 to 2014, financial access in Tanzania nearly doubled, from 27% to 55%. What did this take? Learning from mistakes, a firm policy stance, betting on technology and letting innovation run ahead of regulation.

What has inspired you?

> **Missing the boat on innovation.** In 2007, I was in a meeting where two young people made a presentation on a mobile money system. It was ahead of its time and we didn't recognize the possibilities, but our neighbor Kenya did. We were determined not to repeat this mistake.

> **Bringing more people in.** It was obvious that our monetary policy would not work without including more people in the financial system. Inclusion was also a way to make our other priorities succeed.

> **The challenge of poverty.** Removing the bottleneck of financial access was seen as key to reducing poverty in Tanzania.

Why have you been successful?

Being bold and having the comfort of a good example. We made a bold decision to let innovation run ahead of regulation, but we had the advantage of a precedent next door. The guidance of our neighbor Kenya in the AFI Network gave us confidence and helped us feel the risk was manageable.

What's next?

Interconnectivity. We need to scale up access and usage by taking interoperability to a new level, linking not just service providers, but also non-banks and banks.

"It may sound maverick, but let innovation run ahead of regulation."

Governor Benno Ndulu
Bank of Tanzania

Inspiring Innovation to Advance Inclusion continued

JAMES MWANGI ON THINKING BIG AND BEING BOLD AT EQUITY BANK

From five branches of a virtually bankrupt building society to the largest retail bank in Africa, Equity Bank is a 20-year success story. Success has come from thinking big, being bold and re-inventing a business model to leverage the power of mobile technology.

What has inspired you?

Without access, the poor will remain poor. We realized we needed to get people access to a platform where they could access their resources. This was nothing more than an aspiration at first — there was a huge unserved market waiting for someone to take the first step.

Why have you been successful?

> **Mobile technology.** 80% of our users access financial services outside traditional banks. Mobile has given us a tool to overcome the direct and indirect costs of accessing financial services at brick-and-mortar bank branches.

> **A focus on clients**. So many are excluded from the financial system because products are not relevant or practical, so we developed products that made sense. For example, ordinary people did not have access to liquidity, so we removed minimum balances and restrictions on the frequency of transactions. We also trained our staff to speak the local language and understand the local culture, so they can identify the most appropriate products for our clients.

> **Investing in women.** 54% of our clients are women, so we have invested specifically in financial literacy for women to build capacity. Internally, we have worked to ensure that women are well represented at every level of management.

What's next?

Going 100% mobile. We are disrupting our own business model. We are planning to break away from the bricks-and-mortar model completely, so that everything becomes digital. In the future, there will be a convergence of products, services and channels so that financial inclusion is not limited to opening a bank account, but rather is defined by the consumption of financial services. We will expand financial services into other areas in the same way, and we want to expand this model even further across Africa.

"We need to move away from the bricks-and-mortar model, so that everything becomes digital."

James Mwangi
Managing Director and CEO, Equity Bank

STEPHEN KEHOE ON INNOVATING TRADITION AT VISA

A 50-year-old brand, Visa has been expanding beyond its traditional market since issuing an IPO in 2008 and is striving for sustainable new solutions.

How have you innovated successfully in such a mature organization?

Change is constant and we do not relax. The trend towards digitization seems to be happening all by itself, and by 2020 it is estimated that half the world's population will be 'middle class,' so it makes good business sense to be ready for that change. We never lose sight of our goal: to be a business but also provide a social good, and we set a few clear targets to challenge ourselves and stay focused. For example, we set up a separate unit to create a dedicated space for innovation. There is a natural confluence between social impact and growing the business.

What's next?

Create an innovative open-source environment. Payments are the on-ramp for financial inclusion and the future is small merchants. Serving small merchants gives them access to the same kind of services as large businesses.

"Payments are the on-ramp for financial inclusion and the future is small merchants."

Stephen Kehoe
SVP, Head of Global Financial Inclusion, Visa Inc.

Financial Inclusion in Mozambique: Experience and Main Challenges

SPEAKER

Governor Ernesto Gouveia Gove, Banco de Moçambique

In this presentation, Governor Ernesto Gouveia Gove of Banco de Moçambique reflected on the Bank's past and present and, as it celebrates its 40th year, looked to the future with hope.

Sustained economic growth, low inflation and fiscal consolidation have helped to create macro-economic stability in Mozambique, and put it in a position to gradually reduce foreign aid. Quoting the President of Mozambique, Governor Gove said financial inclusion is one of the objectives of the Government and, as such, Banco de Moçambique works to achieve that goal.

Since independence from the Portuguese colonial regime in 1975, developing policies and strategies to improve the welfare of the population has been a major concern of the government. At that time, it embarked on a campaign to persuade the country's adult population to open bank accounts and deposit their savings. However, these efforts slowed during Mozambique's civil war (1976-92).

After the signing of the peace agreement in 1992, Mozambique registered an increase in the number of banks thanks to new legislation that allowed mobile network operators (MNO) to expand their services from calls and messaging to financial services provided through mobile money operators.

To provide a clear vision to all stakeholders, Mozambique launched the Bancarisation Strategy in 2007 and the Financial Sector Development Strategy 2013-2022.

Governor Ernesto Gove, Banco de Moçambique

Currently, the Banco de Moçambique is coordinating the preparation of the National Financial Inclusion Strategy, which is based on the following three pillars:

(i) access to and usage of financial services,

(ii) strengthening of financial infrastructure, and

(iii) consumer protection and financial literacy.

Legislation has also been updated and issued to allow new financial institutions to enter the market.

Success has followed. Data from a recent FinScope Survey shows an increase in the number of financial services access points, such as bank branches, payment terminals and e-money agents, as well as the number of financial services and products available in the market, mainly as a result of the Financial Sector Development Strategy. Lowering barriers for institutions to provide financial services and products has also made a difference, for example, the introduction of interoperability among banks and mobile financial services providers that allow mobile phones to be used to pay the salaries of those working and/or living in rural areas.

Despite these advances, Governor Gove said the country still has a long way to go. A key challenge is financial literacy — there is a widespread need for financial education to help people understand the financial products and services offered in the market.

Improving financial inclusion for the adult population and enabling small and medium enterprises to offer new and innovative products and services will continue to be two of Banco de Moçambique's main strategic objectives.

Re shaping the Financial System for Sustainable Development: Examples from Africa, Asia and the Global Context

SPEAKERS

Allah Malik Kazemi, Bangladesh Bank and **Gloria Grandolini,** World Bank

MODERATOR

Simon Zadek, UNEP Inquiry

Environmental risks have become a concern of central banks and financial regulators around the world, but developing and emerging countries are leading the way in innovative approaches to green finance. This session explored how financial systems are being reshaped for sustainable development, from Africa to Asia to the global context.

It is generally accepted that addressing environmental risks in the finance sector is vital for long-term financial stability, but how are central banks — often new to the environmental arena — addressing the green finance agenda, ensuring different public bodies coordinate effectively and pushing sustainable finance beyond project financing to promote financial inclusion?

The UNEP Inquiry into Design Options for a Sustainable Financial System, established in early 2014, has explored the experiences of 15 countries and the roles of central banks, regulators and standard setters in advancing green finance.

NATIONAL GREEN FINANCE INITIATIVES TAKE FLIGHT

In Bangladesh, the central bank is addressing environmental concerns and opportunities in the green economy as part of its core mandate to pursue monetary targets, financial stability and broad alignment with national development priorities.

Gloria Grandolini, World Bank

From refinancing to lending for green projects like renewable energy and water treatment plants, Bangladesh Bank is using a combination of financial instruments to encourage green finance.

In the UK, the insurance sector was concerned about the risks arising from climate change and adopted a macro-prudential scheme, while in Brazil, the central bank adopted a regulation requiring all licensed banks to conduct a full environmental risk assessment. Other examples from China, Indonesia and Singapore highlighted efforts to guarantee effective risk pricing, enable innovative financial products, and ensure financial systems are stable and policies align.

WHAT'S NEXT?

Panelists raised the issue of international coordination and standard setting, pointing to country-level innovation and leadership as a way to build a critical mass of practice and spur global action. The Inquiry highlighted its work with the People's Bank of China and Bank of England as an example of international cooperation and pointed to the potential for the topic to be taken up under China's G20 Presidency in 2016.

AFI will now consider how best to engage on the environmental aspects of sustainable finance and make the most of the UNEP Inquiry's work. The Inquiry's main report, which draws on 60 technical papers, including 15 country reports, will be launched at the IMF/World Bank Annual Meetings in October 2015. For more information, see **www.unep.org/inquiry.**

> "Looking only at the business cycle is a short-term point of view. If you want longer term stability you need your finance and monetary policy to support long-term goals, such as social stability, social inequality and environmental stability."
>
> **Allah Malik Kazemi**
> Bangladesh Bank

Central Bank-Issued Digital Currency and its Potential Impact on Financial Inclusion

SPEAKERS

Jonathan Dharmapalan, eCM

MODERATOR

Victor Dostov, Russian E-Money Association

Could cash soon be replaced by digital currency? In this talk show session, Jonathan Dharmapalan, CEO of eCurrency Mint (eCM), discussed the possibility for central banks to begin issuing digital legal tender and the impact this could have on advancing financial inclusion.

Cash, Mr. Dharmapalan suggested, is the world's first form of financial inclusion. A bank note may just be a piece of paper, but it became a secure instrument because people trusted that central banks were the sole issuer. Today, thanks to major technological innovations and the growing acceptability and demand for mobile money, the possibility now exists for central banks to issue, monitor and circulate digital legal tender, and for electronic currency to replicate the sovereign nature of cash.

A NEW SOLUTION

According to Mr. Dharmapalan, eCurrency Mint (eCM) has developed the only known technology and legal, procedural and security requirements to enable central banks to issue a secure and legitimate electronic currency. Mr. Dharmapalan explained that eCM is in the process of deploying this capability in major emerging markets, and discussions are currently underway with 30 central banks worldwide, with a number of pilots expected to be launched shortly.

Jonathan Dharmapalan, eCM

"Digital is clearly the future, but we want currencies to be regulated and legal. We don't want it to be the wild west."

Loretta Michaels
US Treasury

By creating a central bank-issued digital currency that would work over any digital platform, Mr. Dharmapalan said an age-old problem — interoperability — would essentially be solved. In Mozambique, for example, digital metical could be transmitted by and flow between the country's mobile network operators.

THE ECONOMIC IMPACT OF DIGITAL CURRENCY

Central bank-issued digital currency would, according to the presenter, address problems such as cash shortages and the production and replacement costs of paper currency and give the central bank the ability to govern all forms of its currency via monetary policy. For the poor, an electronic currency with all the trust, security and ubiquity of cash, and available without the need to be part of the formal banking system, would provide a secure, fast and convenient way to store value and transact.

SECURITY: KEY TO ACCEPTANCE

Paper cash became a secure instrument in the world because central banks embedded secure records in the paper, but secure figures like digital series numbers could also be added to digital currency. Once it is secure and central banks issue it as legal tender, public trust and acceptance will follow. Given the pervasiveness of mobile money, particularly in Africa, this acceptance could come quickly.

The AFI Network will follow developments in this area with close interest as the first pilots are launched, and pay special attention to the impact of this initiative on financial inclusion in the countries where it is deployed.

"Digital currency gives rise to a new way of thinking. It requires central banks to clarify their monetary policy and to cooperate with commercial banks, MNOs and other important stakeholders."

Jonathan Dharmapalan
eCM

ID / Payment Programs Driving Large-Scale Financial Inclusion

SPEAKERS

May Abulnaga, Central Bank of Egypt and **Labinot Carreti,** Veridos

MODERATOR

Ed Brandt, MasterCard

"It is important to leverage ID issuance to drive financial inclusion."

Ed Brandt
MasterCard

A unique identity is critical to access financial services, but almost every country in the world lacks the proper technology for identification. This session explored the issues governments and central banks face in guaranteeing people have adequate identification to open accounts and be confident this identity is 100% accurate.

INNOVATIONS IN IDENTIFICATION

Personal identification is essential for financial inclusion — having an ID opens access to financial services, which in turn builds confidence in making transactions — and new innovations in identity and payments are converging to drive large-scale financial inclusion.

Biometric technology in particular is making it possible for governments to make payments to the public, such as employment and social benefits, and ensure the right amount is being paid to the right people. Biometric identity validation is enabling and faster than other types of identity validation, and offers a range of benefits, including:

Cost savings. MasterCard is working with governments worldwide to enable payment programs supported by biometric identity validation. These types of programs have shown major cost savings, in some cases reducing administrative costs by more than 50 percent.

From left to right: May Abulnaga, Central Bank of Egypt; Ed Brandt, MasterCard; Labinot Carreti, Veridos.

Faster disaster response. The ability to react quickly is the best way governments can support people when disasters occur. With biometric enrollment of the population, victims can be reached much more quickly and easily, and disaster relief can be allocated more efficiently.

Transfer and payment solutions. People at the base of the pyramid need to be able to transfer funds and cash out. MasterCard is working with governments to enable transfer and bill payment solutions for this segment of the population, but a new set of public-private partnerships is required.

THE EXPERIENCE OF EGYPT

May Abulnaga of the Central Bank of Egypt described how the introduction of a digital signature has allowed customers to send money easily, provided fast and confident identification of those sending and receiving the money, reduced transaction costs and time, and facilitated government payments of salaries and pensions, as well as business-to-business transactions. Since so many people in Egypt receive subsidies, she explained, a modern personal identification system could help the government reach the entire population and reduce costs significantly. This has become especially important during Egypt's recent revolution and political turmoil, which brings new challenges with every change in leadership.

WHERE ARE WE NOW?

Panelists agreed biometrics is an important way to address financial inclusion and improve the efficiency and transparency of payment programs and the issuance of national IDs, and governments worldwide are embracing this technology. Facial recognition is currently the most advanced biometric recognition feature but, in future, multiple biometrics will be used to enhance security, such as iris and fingerprint biometrics in passports.

Driving Financial Inclusion with High-Touch, High-Scale and Low-Cost Technology

SPEAKERS

Katie Nienow, JuntosFinanzas and **Peter Gross,** Microensure

MODERATOR

Arjuna Costa, Omidyar Network

How can we bridge the gap between customers accessing financial services and actually using them? This session showcased some of the latest innovations designed to dramatically increase usage through high-touch, high-scale and low-cost connections and customer engagement tools.

ENGAGING CUSTOMERS, BUILDING TRUST

Real financial inclusion is only possible when the poor are able to make use of financial services, and user-centered digital products are helping to bring the financially excluded into the formal system. Katie Nienow of JuntosFinanzas described the company's gradual transition to internet- and SMS-based financial tools that are now reaching people in places that were previously inaccessible.

Juntos is an SMS-based personal finance tool with an active engagement function – customers receive SMS reminders about how to use their account and when to save – that helps to encourage specific financial habits and behavior. By helping customers understand how to use their money, the company has seen an increase in active client rates, savings and account activity. However, building the trust of customers – in banks, in the platform, in their own money management abilities – has been a major challenge.

TAILORING INSURANCE TO THE POOR

Poor people face more financial risks and have a greater need for insurance, but they are not well served by traditional insurance products and complicated policies.

Arjuna Costa, Omidyar Network

"Without a safety net, human dignity is lost."

Peter Gross
Microensure

The poor tend to use alternative risk mitigation mechanisms instead because they do not trust traditional insurance agents and cannot afford the premiums. Literacy rates also tend to be low and customers are hesitant to provide KYC information.

Peter Gross of Microensure explained the company's different approach to insurance products and distribution, which is to design products that suit customer needs and use mobile services to promote insurance in remote areas. Claims can be submitted via WhatsApp and are paid out over mobile money within a few hours. When the company found that asking for KYC information scared away users and significantly reduced uptake, it changed tactics. "Using a first and last name instead has been an effective way to control fraud through simple family research," Mr. Gross said. Today, 35,000 people a day across Africa are signing up for a Microensure product.

Q&A: WHAT ARE THE CHALLENGES OF SCALING THESE TYPES OF BUSINESSES?

Katie Nienow, JuntosFinanzas: The greatest inhibitor to action is uncertainty. For banks, uncertainty about what the regulations are or will be creates a barrier to entry. Since we partner with banks, which are naturally risk averse, it is hard to be customer-centered.

Peter Gross, Microensure: For us, one of the biggest challenges is determining what to include in insurance. It's hard for us to coordinate terms and conditions with telcos, for example, because of the low literacy levels in our markets.

"People usually don't trust themselves when it comes to money. They also don't trust the banks, they are afraid of fees, of losing data, of making deposits in wrong accounts."

Katie Nienow
JuntosFinanzas

Innovations in Data Collection and Usage

SPEAKERS

Richard Eldridge, Lenddo; **Nimrod Betser,** CEO, Adam Milo; **Paul Breloff**, Managing Director, Accion Venture Labs

MODERATOR

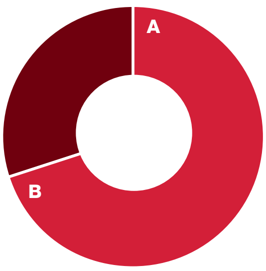
Kammy Naidoo, UNCDF

What is big data? What is new or different about it? What are the demonstrable benefits of using big data to enhance financial inclusion, and what are the barriers to taking full advantage of them? This session showcased developments in new and alternative data applications and their implications for financial inclusion.

There has been an explosion of digital data in recent years, and this data could become a goldmine for governments and companies to better understand their constituents and clients. In emerging markets, the use of big data and alternative data has taken off as a way to include groups of people previously disconnected from or invisible within the financial system. New models of data mining and analytics are allowing financial institutions to leverage mobile phones, social media and a range of other data sources to assess the credit-worthiness of 'no-file' or 'thin-file' clients.

For example, Adam Milo's Veritas Credit Testing tool uses a technologically advanced algorithm and psychological know-how to assess the risk level of loan applicants. Findings from Peru have shown the use of Veritas can decrease bad debt by at least 40 percent. Most importantly, it can create data — and therefore access to credit — for people at the base of the pyramid for the very first time. Lenddo is another company enabling businesses to simply and securely evaluate the character and identity of customers, by using alternative data to extend credit and deliver life-improving services.

DOES YOUR COUNTRY USE BIG DATA WHEN LOOKING AT FINANCIAL INCLUSION TRENDS?



A	Yes	70%
B	No	30%

WHAT NEEDS TO HAPPEN NEXT?

Panelists agreed that policymakers and regulators need to create an environment for start-ups to innovate and ensure healthy market dynamics for start-ups and mainstream players alike. Financial capability and consumer protection also need to be enhanced, and policymakers can create initiatives or provide incentives to do this.

There is also a need for policies and regulations to address issues of data access and ownership: who owns big data and who should have access to it? There are gatekeepers who are limiting the access and use of data, such as mobile phone or search engine data, but new legal frameworks may need to be put in place to protect customer privacy. "When it comes to big data," Paul Breloff of Accion Venture Labs said, "it is not a question of analytics, but of access to the raw data. There is a need to democratize access to it."

Regulators agreed that new and alternative data has been demonstrated to increase credit ratings for 'credit-invisible' clients. These tools are, in principle, similar to traditional credit bureaus, but apply more and better data. It was also agreed that AFI should raise awareness within the network about these proven credit scoring tools.

> "Big data was the new buzz word, now it is bigger data."
>
> **Richard Eldridge**
> Lenddo

Innovations in Data Collection and Usage

A CREDIT BUREAU OF ONE

Innovations in new and alternative data will allow customers to decide what information to share with loan providers, just as they opt to share information with mobile phone app developers.

Digital and decentralized data will also allow customers to have more control over their data and financial profile and empower them to shape their financial futures.

Our Global Audience










Mobile at the Merchant:
Making Digital Finance Services Relevant Every Day

SPEAKERS

Stafford Masie, thumbzup and **Ben Lyon,** Kopo Kopo

MODERATOR

Mark Pickens, Visa

This session heard from two companies creating pathways for the "forgotten half" to join the financial ecosystem through digital financial services. thumbzup designs devices for electronic payments and Kopo Kopo is a merchant aggregator that supports electronic payment ecosystems.

Merchant acceptance is an important piece of the financial inclusion puzzle. In Kenya, where there are 140,000 registered merchants, only 20,000 actively accept e-payments. For merchants, who are concerned with retaining customers, accessing working capital and growing their business, there must be tangible benefits to offering digital payments. However, creating a value proposition can be a challenge and requires financial services providers to offer:

- **Mobile acceptance devices,** which can give merchants additional sources of revenue.
- **Push payments,** where payment is made as a credit transfer from a customer's financial institution to the merchant, giving the customer a greater sense of control.
- **More transparent transaction information,** for both merchants and customers.

Two companies are taking on these challenges.

THUMBZUP: MAKING DIGITAL PAYMENTS EASIER

The first product Stafford Masie's company launched was a payment device – a fast-pay card reader that was an add-on to a cell phone and essentially converted the phone into a card acceptance machine. Initially launched in South Africa and Australia, the product turned out to be an expensive device for African users and not the solution thumbzup wanted to provide to the market. It then developed a new product, the Payment Blade, which is about to be launched in South Africa and will be less expensive than the previous model. Mr. Masie noted that some enterprises have expressed interest in becoming aggregators and are trying to eradicate cash from their system completely.

KOPO KOPO: CREATING A VALUE PROPOSITION

Ben Lyon is the co-founder of Kopo Kopo, a merchant aggregator for M-Pesa in Kenya that began acquiring merchants in 2012. Its platform enables merchants to accept digital payments and build relationships with their customers. Relationships with merchants, he said, are built through payments, and merchants need a tangible reason to accept them. Once they do, you can provide more revenue streams for the merchant, use payment data for a variety of purposes and reach the mass market. Kopo Kopo's merchants have increased their revenue by 30%, and the company uses loan opportunities as an incentive for merchants to adopt the payment platform. It has also created a customer evaluation system for merchants, which enables them not only to accept payments, but also to advance customers cash based on the assessment.

WHAT'S NEXT?

Panelists concluded that digital satellite services and appropriate telecommunications legislation will be critical to enabling functional telecommunications and financial inclusion.

Stafford Masie, thumbzup

Ben Lyon, Kopo Kopo

The Road to Financial Inclusion in Latin America

SPEAKERS

Carlos López-Moctezuma, BBVA and **Jorge Camus,** Destácame

MODERATOR

Superintendent Daniel Schydlowsky, SBS Perú

"By aligning incentives, millions of previously invisible people can be seen."

Jorge Camus
Destácame

Around the world, new business models are being developed to reach those at the base of the pyramid. This session showcased some of the most innovative ideas, including those that are leveraging digital platforms to provide appropriate financial products and services to the very poorest.

Carlos López-Moctezuma of BBVA thinks new technology is the key to scalable financial inclusion. Although developing countries should be able to accommodate innovative new approaches to access to finance, implementing them introduces a number of challenges and questions about prudential regulations and the legal uncertainty surrounding consumer rights and data privacy.

Destácame is a Chile-based company that offers people without a credit history a way to obtain credit. Destácame manages a system that captures billing information from utility companies, for example, to generate an alternative payment score which it then shares with financial institutions. Individuals who have their information in the system are asked to authorize Destácame to share their information, and it only uses data for which it has explicit consent. Incentives are provided to utility companies to provide the information, but local regulation has to acknowledge that the data belongs to the customer.

The system is helping banks assess the risk of customers who have been making payments to utility companies, and then adjust the interest rate they charge based on the client's risk profile. In the long run, this lowers risk for banks and expands their customer base. Since launch, the interest rates charged to customers have gone down, and the number of people using the platform or allowing their information to be shared has gone up — 5,000 accounts just one month after launch.

Ilya Sverdlov of AFI concluded the session by saying that although new technologies such as Destácame's may be moving faster than regulation, the aim is not to catch up, but rather to assess the risk associated with these new technologies. Superintendent Daniel Schydlowsky likened the situation to a piece of steel that must be bent slowly or it will break: "Regulation and innovation have to be introduced gradually for users or beneficiaries to accept them. We need solid financial systems, but they must have enough flexibility in them to drive change."

Carlos López-Moctezuma, BBVA

Superintendent Daniel Schydlowsky, SBS Perú

Financial Inclusion Quiz

FACILITATOR
Eliki Boletawa, AFI

The Financial Inclusion Quiz is an entertaining and informative game show that gives participants the opportunity to learn more about financial inclusion initiatives and activities by AFI members and other players.

The financial inclusion quiz format is adapted from the popular game show, "Who Wants to be a Millionaire?" Nine volunteers from AFI member institutions formed three teams of three people, and were invited to participate on the stage. For each multiple choice question, the teams worked together to decide on the final answer within the time limit (15 seconds). The audience could also participate using a hand-held voting device.

Tough questions

Thanks to all the players

Each team could seek help from the audience through "the wisdom of the crowd" option, whereby the team could see the voting results from the audience before deciding on the final answer. This option could only be used twice by each team.

The teams were quizzed on questions about the AFI Network, such as the most active member regions and the launch of national financial inclusion strategies, as well as broader financial inclusion questions, such as the number of people who are unbanked globally.

Although the number of correct answers was extremely high overall, one team was the clear winner, scoring 17 correct answers out of 25 questions. The second highest-scoring team earned 13 points.

The winning team consisted of member institutions from the Central Bank of Armenia, SBS Perú and Bank Indonesia.

Deputy Executive Director of AFI, Norbert Mumba, awarded small prizes (a wearable wireless fitness tracker) to each member of the winning team.

As a surprise, the emcee also announced the member of the audience who answered the most correct answers the fastest. With the "fastest finger" feature, each voting device could track the number of correct answers and the speed at which users selected them. The audience winner was from the Bangko Sentral ng Pilipinas.

Getting it right

Convergence of Non-Bank E-Money Providers and Banks

SPEAKERS

Stephen Nduati Mwaura, Central Bank of Kenya; **Simone di Castri,** GSMA; **Dennis Volemi,** Commercial Bank of Africa (Kenya); **Sacha Polverini,** Bill & Melinda Gates Foundation; **Allah Malik Kazemi**, Bangladesh Bank

MODERATOR

Tamara Cook, FSD Kenya

This session discussed the recently observed convergence of non-bank issued e-money and bank accounts, as well as other innovative approaches to integrating e-money with banking products.

THE M-SHWARI SUCCESS STORY

M-Shwari is a savings-based credit product jointly offered by the Commercial Bank of Africa (CBA) and MNO Safaricom through its mobile money service M-Pesa, now used by two-thirds of Kenyan adults. Through M-Shwari, clients can obtain credit based on a credit score generated by their M-Pesa transaction history. This innovative product is entirely digital — the client never has to interact with a bank teller — and to date it has 11.6 million customers, deposits of USD 1.5 billion and 22.6 million loans worth $2.77 billion. The average transaction is 10 to 15 dollars.

How did M-Shwari get so far so fast? In part thanks to an innovative regulator. Dennis Volemi of the CBA said M-Shwari could not have been designed without the Central Bank of Kenya (CBK) providing both a regulatory framework to enable digital KYC verification — it takes just 10 to 60 seconds for a customer to become active on the service — and a link to the national ID system, which covers 99% of Kenya's population.

SHARING THE WEALTH

Simone di Castri of GSMA suggested that M-Shwari is more of a partnership than a convergence because MNOs do not want to become banks. One of the most important financial innovations, he said, has been e-money issuers distributing interest accrued in pooled mobile money accounts, which the Bank of Tanzania encouraged in a February 2014 circular. Tigo Millicom has since seen a 51% uptake of its service. However, since transaction limits and volume ceilings still apply on mobile wallets, customers will still eventually move to bank-based savings products. Stephen Mwaura of the CBK had a different perspective.

Offering interest is still the job of commercial banks, he said, and that, as with Safaricom and the CBA, telcos bring customers to the door. Access to payments, he said, is not the same as access to finance.

AUDIENCE POLL

43%	have non-bank e-money issuers operating at scale
47%	have bank e-money issuers operating at scale

WHAT'S NEXT?

For both regulators and telcos, the rules of the game are changing. Sacha Polverini of the Bill & Melinda Gates Foundation stressed that collaboration and close dialogue will be needed at both national and international levels to address grey areas such as infrastructure (broadband), service quality, privacy and consumer protection. A new regulatory approach is needed for digital financial services, said Mr. Mwaura, and a clear, extended mandate will be critical.

A CONVERGENCE IN BANGLADESH

In Bangladesh, banks and telcos are working together to modernize the country's infrastructure and payment system with e-money. The country's bank-led model is able to offer more financial services using MNO outlets and networks, and it is expected that telcos, which offer deposit-taking services, will lead customers to bank accounts.

The regulator is allowing the private sector to grow, in fact, there are too many platforms. A switch has been commissioned to respond to interoperability challenges, and KYC issues are being addressed in collaboration with the national election commission. A national database has been finalized and electronic smart cards have been issued as IDs.

As told by Allah Malik Kazemi, Bangladesh Bank

From left to right is Simone di Castri, Dennis Volemi, Allah Malik Kazemi, Sacha Polverini and Stephen Nduati Mwaura

Leadership and Innovation for SME Finance

SPEAKERS

Governor Retselisitsoe Matlanyane, Central Bank of Lesotho; **P.N. Eluhaiwe,** Central Bank of Nigeria; **Susanne Dorasil,** BMZ; **Deputy Governor Eden Dema,** Royal Monetary Authority of Bhutan; **Moisés Jorge,** Millennium BIM

MODERATOR

Nimal Fernando, AFI

"Non-bank lending and integration in global value chains is increasingly important because the banking sector is failing some SME sectors."

Susanne Dorasil
GPFI Subgroup on SME Finance

This session on leadership and innovation in SME finance focused on the extent to which new innovations, such as crowdfunding and data analytics, can be used to improve access to finance for SMEs in developing countries, and the role of government and central bank leadership in driving effective SME finance policies forward.

Small and medium enterprises (SMEs) account for approximately 33% of GDP and 45% of employment in developing countries, so it is no surprise AFI members see access to finance for SMEs as a core part of a holistic financial inclusion strategy. SMEs can play a major role in reducing poverty and expanding financial inclusion, but the challenge is translating this potential into reality. The panel shared policy interventions that have been applied in Mozambique, Bhutan, Lesotho and Nigeria to enhance access to finance for SMEs.

In Mozambique, where 98.7% of companies are SMEs, Millennium BIM, the country's largest commercial bank, pays extra attention to the needs of these enterprises. As part of its commitment to economic development, the bank has allotted about $240 million for small business owners. This, Moisés Jorge said, is changing the lives of individuals and the country as whole.

Leadership and Innovation for SME Finance

In Lesotho, the Central Bank has taken major steps to ensure women can register collateral and apply for credit in their own right. Amendments to the country's Land Act now allow women to own land and use it as collateral to obtain loans, and the legal status of married women has been changed to ensure women are fully equal under the law. The government has also implemented schemes to allow commercial banks to give loans to excluded groups, and commercial banks have signed a memorandum of understanding with the Ministry of Finance. These efforts, together with the creation of a national ID, credit information bureau and a collateral registry, will provide the data financial services providers need to extend credit to SMEs.

Meanwhile, the Royal Monetary Authority of Bhutan is leading the drive for access to finance by participating in the creation of a government-wide strategy for SMEs.

Susanne Dorasil of BMZ Germany and Co-chair of the GPFI Subgroup on SME Finance, emphasized the importance of non-bank lending and innovations such as crowdfunding, and the panel agreed that such innovations showed significant potential, but had yet to reach scale in many developing countries. The panel therefore recommended that the AFI SME Finance Working Group examine the regulation of crowdfunding and other innovative financing mechanisms as part of its agenda for the next year.

Mobile-Enabled Cross-Border Remittances

SPEAKERS

Governor Ernesto Gove, Banco de Moçambique; **Governor Tiémoko Meyliet Koné,** BCEAO; **Governor Chiranjibi Nepal,** Nepal Rastra Bank; **Governor Abraao F. de Vasconselos,** Banco Central de Timor-Leste

MODERATOR

Feisal Hussain, UNCDF

How are policymakers and regulators expanding cross-border remittance flows while also ensuring the stability of the financial system? And how can they help to reduce the proportion of cross-border remittances made through the informal market? This talk show session focused on the need for regulators to adopt appropriate policy measures to mitigate risks, and ensure vulnerable groups have access to safe and efficient payment products and services.

FOLLOWING THE MONEY: THE ECONOMIC IMPORTANCE OF CROSS-BORDER REMITTANCES

International remittances are a major and stable source of income in many emerging and developing economies. It is estimated that international migrants from developing countries will send $440 billion in 2015 — more than double the world's official development assistance. This money is crucial for family and friends back home to pay for education, medical and basic daily expenses.

However, exorbitant transfer fees charged by remittance service providers and a lack of appropriately designed products are draining a huge amount of money away from the formal financial sector. By failing to capture the transfers migrant workers are making through the informal market, the remittance data reported by central banks does not accurately reflect the real value and amount of the payments being sent.

With the advent of digital financial services to facilitate remittances, there are now faster, more convenient and accessible ways of transferring money across borders. Mobile-enabled electronic money has the potential to lower costs and make it easier to send low-value payments, but so far mobile-based initiatives have struggled to generate large transaction volumes in most markets. GSMA estimates that in December 2014, only 164,000[1] cash-to-wallet and web-to-wallet international transfers were received in mobile money accounts globally.

MANAGING RISKS, MAINTAINING STABILITY

Nevertheless, mobile-enabled cross-border payment platforms are gaining popularity. This introduces certain risks that need to be mitigated, and policymakers need to strike a fine balance between digital innovation and the stability and security of the financial system. Namely, regulators will need to address issues of customer identification (KYC), currency exchange, cross-border settlement and consumer protection.

There is scope for regional harmonization when formulating and implementing policies on remittances and dealing with AML/CFT risks, and would help to ensure all parties involved in the transaction are protected and safety is maintained at all times. Standardizing KYC requirements within regions would promote transparency and also help to create a more secure system.

Accurate data will also be important for measuring the impacts of remittances on the balance of payments and foreign reserves. The major problem now is that there is no reliable data on the informal sector, which makes it difficult to encourage the growth of cross-border payments. The session ended with panelists encouraging AFI members to think about how to help regulators pursue this goal.

Feisal Hussain, UNCDF; Governor Ernesto Gove, Banco de Moçambique; Governor Tiémoko Meyliet Koné, BCEAO; Governor Chiranjibi Nepal, Nepal Rastra Bank; Governor Abraao F. de Vasconselos, Banco Central de Timor-Leste

It is crucial for regulators to understand how new digital approaches work. Dialogue between the regulators and the operators will be essential.

1 Analysis based on the GSMA 2014 Global Mobile Money Adoption Survey.

Stemming the Tide of De-Risking through Innovative Technologies and Partnerships

SPEAKERS

Deputy Governor Nestor Espenilla, Jr., Bangko Sentral ng Pilipinas; **Deputy Governor Bwalya Ngandu,** Bank of Zambia; **Deputy Governor Ariff Ali,** Reserve Bank of Fiji; **Carlos López-Moctezuma,** BBVA; **Douglas Pearce,** World Bank Group

MODERATOR

Governor Benno Ndulu, Bank of Tanzania

It is widely recognized that trends toward de-risking could add to overall AML/CFT risk instead of mitigating it as banking services are replaced by unregulated service providers. This session focused on the scale of de-risking, its impact on financial inclusion and potential solutions to address de-risking actions by banks.

De-risking, panelists agreed, is a real problem. When financial institutions terminate or restrict business relationships with certain categories of customers, a range of impacts are felt from one jurisdiction and sector to another.

In the Philippines, where remittance flows are the third largest in the world and account for 9.5% (USD 26 billion) of GDP, Bangko Sentral ng Pilipinas (BSP) has identified six remittance corridors that have been affected by de-risking. Deputy Governor Nestor Espenilla, Jr pointed to two major potential costs. First, remittances primarily benefit lower-income families with a monthly income of less than $500, and these same households would be most affected by the removal of delivery channels and higher remittance costs. Second, if banks act in a non-proportionate way, overall AML/CFT risk could increase as flows are driven to more informal channels.

Governor Benno Ndulu, Bank of Tanzania

Providing the perspective of an international bank, Carlos López-Moctezuma of BBVA stressed that the de-risking problem is real, not only in terms of potential fines, but the reputational risk to the entire group if AML rules are breached. To reduce this risk and the potential for human error, BBVA is leveraging technology to enable international remittances to be sent through ATMs and codes to be sent to mobile phones.

Douglas Pearce of the World Bank updated session participants on survey results that found banks often did not have confidence in the quality of supervision and monitoring of the money transfer operator sector, and that greater guidance and monitoring by supervisors could persuade them to re-engage with the sector.

Participants urged AFI to continue convening the key global players needed to make progress in this area, beginning with the G24/AFI Roundtable at the IMF and World Bank Annual Meetings in Lima in October 2015. Participants also urged AFI to encourage developed country regulators to take part in the dialogue in order to expose them to developing country and private sector viewpoints.

"A risk-based approach does not mean no risk. That's impossible. There will always be some risk.

A risk-based approach means finding a balance, and identifying which risks are more salient than others. This is a public policy choice, and comes back to political leadership.

This is a local issue as much as it is a global issue, so we need to properly implement the risk-based approach in an even way."

Deputy Governor Nestor Espenilla, Jr.
Bangko Sentral ng Pilipinas

Data Strategies for the Financial Inclusion of Women

SPEAKERS

Governor Denton Rarawa, Central Bank of the Solomon Islands; **Vice Governor Monique Nsanzabaganwa,** National Bank of Rwanda; **Henriqueta Hunguana,** New Faces New Voices; **Karen Miller,** Women's World Banking

MODERATOR

Inez Murray, Global Alliance Banking

Why is collecting gender-disaggregated data important for banks, policymakers and regulators? What roles can different stakeholders play in collecting data to formulate financial inclusion policy for women? This session discussed the value and the challenges of capturing gender-disaggregated data and showcased initiatives to close the gender gap in financial inclusion.

Collecting gender-disaggregated data from financial services providers is essential to estimating and closing the gap in financial services for women worldwide, determining the market opportunity for serving women, and contributing to policies that promote women's economic empowerment.

For example, when the Central Bank of the Solomon Islands began collecting gender-disaggregated data and then disaggregating it by mobile, it saw the number of accounts rise. This has been very promising from a financial inclusion perspective, but banks, policymakers and regulators still face challenges accessing quality data on women and banking, and generating the internal awareness and buy-in to take action.

RAISING AWARENESS

Inez Murray of the Global Banking Alliance (GBA) highlighted research by McKinsey that found the majority of senior bankers at big banks were completely unaware that financial services for women was a market opportunity. Part of the problem, she said, is the lack of data to size the opportunity, but GBA predicts this will change as the number of positive examples grows. One interesting example is BLC Lebanon, which found that banking business with women has a higher return on assets for small, medium and large businesses.

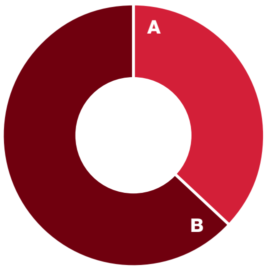
TAILORING PRODUCTS TO WOMEN

Karen Miller of Women's World Banking pointed to data from its partner Diamond Bank in Nigeria, which showed women did not see banks being for them and were hesitant to adopt faceless mobile services, yet they aspired to have a bank account. So Diamond Bank created BETA savings products delivered through agents called 'BETA friends.' With their BETA savings product, women used mobile more than men, but ATMs and bank branches less. They made deposits less frequently than men, but kept a higher percentage of money in their account, indicating they save for big events. Men, meanwhile, saved more when their agent was female.

SIMPLIFYING KYC & ISSUING IDs

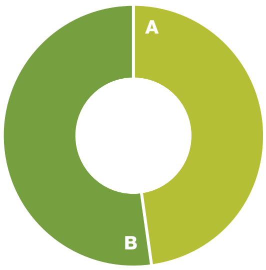
Since 2009, the gender gap in Mozambique has actually been widening. Henriqueta Hunguana of New Faces New Voices pointed to KYC as a particular problem since women often do not have any form of identification. So, fairs are being held where women are issued IDs, which is helping to address the problem.

DOES YOUR FINANCIAL INCLUSION STRATEGY CURRENTLY INCLUDE ANY SPECIFIC GENDER TARGETS?



A	Yes	37%
B	No	63%

DO YOU CURRENTLY DISAGGREGATE SUPPLY-SIDE BANKING DATA BY GENDER?



A	Yes	48%
B	No	52%

RWANDA'S FINANCIAL INCLUSION SUCCESS STORY

In 2008, the FinScope Survey focused attention on financial inclusion challenges in Rwanda. Umurenge SACCOs were introduced in response, and doubled financial inclusion in five years. Women now have close to 40% of accounts in Umurenge SACCOs, although they borrow and transact less than men. The National Bank of Rwanda began promoting agent banking in 2013, which has increased lending to women from about 22% to more than 25%.

"Statistics are very powerful. If you don't measure it, it doesn't get fixed. We wanted to make everybody uncomfortable by showing the gender gap with hard data." - Vice Governor Monique Nsanzabaganwa, National Bank of Rwanda

Harnessing Technology for Effective Financial Inclusion Measurement

SPEAKERS

Juan Carlos Chong, SBS Perú, Chair of FIDWG; **Atiah Abdul Razak,** Bank Negara Malaysia; **Vereimi Levula,** Reserve Bank of Fiji; **Lara Storm,** MIX Market; **Doubell Chamberlain, Cenfri**

MODERATOR

Herman Smit, Cenfri

How can technology be leveraged to enhance data collection and measure and monitor financial inclusion more effectively? How is data being used to inform financial inclusion policies and what new insights have we gained from this data? This session showcased new technologies and partnerships that are creating a clearer picture of the state of financial inclusion and using data to monitor and evaluate the impact of policies.

VISUALIZING DATA

In Fiji, there are four national multi-stakeholder working groups on financial inclusion, one of which is working on developing a database led by the Bureau of Statistics. With the support of banks, insurance companies and MNOs, the Reserve Bank of Fiji has collected supply-side data and used GIS software to map financial inclusion in different provinces. After visualizing more than 6,000 access points on a national GIS map, it became clear that most access points were along the coast and in major towns, while rural and highland communities were underserved. Thanks to this insight, the Bank is now taking steps to improve financial access for these hard-to-reach populations.

MIX Market's FINclusion Lab is a data visualization and analysis platform that enables policymakers and financial service providers in 23 countries to access high-quality and regularly updated data to visualize the access, quality and usage of financial services at national and regional levels. Local stakeholders can access comprehensive market-level data on supply and demand for financial services, regulators can see which areas are lagging behind in financial inclusion, and service providers are able to identify new markets.

Lara Storm, MIX Market; Atiah Abdul Razak, Bank Negara Malaysia; Vereimi Levula, Reserve Bank of Fiji; Juan Carlos Chong, SBS Perú, Chair of FIDWG; Herman Smit, Cenfri

"Data = information
Information = transformation"

Juan Carlos Chong
SBS Perú

INTEGRATING SUPPLY AND DEMAND-SIDE DATA

Juan Carlos Chong, the chair of FIDWG, reported that his institution, SBS Perú, is currently working with supply-side data on financial inclusion, but has found that useful, quality data can be difficult or even impossible to get. Integrating this data with demand-side data will ultimately help to develop more suitable products and introduce or change regulations. Demand-side data can be gathered through surveys, but a data repository, such as the one developed by FIDWG is useful for data analysis and dissemination.

Bank Negara Malaysia has developed a single, integrated statistical platform that provides end-to-end data management, from submission to storage and dissemination to all stakeholders. Financial inclusion data from various demand-side sources, together with supply-side data, are collected and compiled adding unique consumer tags, then analyzed and made available to different users. Although this integrated system has been costly to set up and maintain, it has enabled easy and fast access to timely, credible and relevant data. It has also made data management across the bank more efficient and reduced the reporting burden by eliminating the duplication of data.

"The GIS mapping project made invisible markets visible, enabling us to visually identify unserved and under-served segments of the population."

Vereimi Levula
Reserve Bank of Fiji

New Approaches in E-Money

SPEAKERS

Kennedy Komba, Bank of Tanzania; **Elías Vargas,** SBS Perú; **Tomas Salomão,** Standard Bank (Mozambique); **Greg Reeve,** Millicom Tigo

MODERATOR

Michael Tarazi, CGAP

Some countries in Africa and Latin America have recently developed innovative regulatory provisions for e-money products, such as interoperability in e-money ecosystems and payment of interest accrued in e-money trust accounts. This session examined whether these new approaches were favoring the market or helping to advance financial inclusion.

BUILDING AN E-MONEY ECOSYSTEM: THE EXPERIENCE OF PERU AND MOZAMBIQUE

Peru

In Peru, the e-money law enacted in 2013 states that the regulator (SBS Perú) can create the conditions for interoperability between industry players in future. The country's main interoperability initiative, Modelo Peru, is similar to a national switch and interconnects financial institutions, telcos and newly created e-money issuers.

Mozambique

There is huge demand for financial services in rural areas of Mozambique, and telcos have seized the opportunity while the central bank has developed regulations on e-money and customer protection. Tomas Salomao of Standard Bank said that although Mozambique is not as advanced in its regulation of e-money and digital financial services, there is no need to reinvent the wheel. Kenya, Tanzania, Burundi and Ghana have already successfully implemented e-money models with interoperability features, and it will try to learn as much as possible from them.

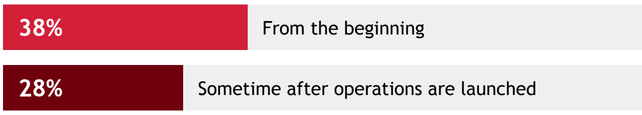
DISTRIBUTING RETURNS FROM E-MONEY TRUST ACCOUNTS: THE EXPERIENCE OF TANZANIA

In February 2014, the Bank of Tanzania issued a circular encouraging telcos to distribute all interest accrued in pooled accounts to its e-money customers. Since this distribution began, Millicom Tigo Tanzania has seen a 51% increase in uptake. However, this action has spurred debate on whether non-banks should be in the business of distributing returns, which is quite similar to paying interest, and who really benefits.

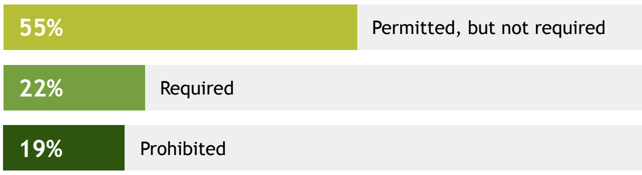
Kennedy Komba of the Bank of Tanzania (BOT) said it has been challenging to distinguish between deposit accounts and payment accounts, and this has made it difficult to allow interest to be paid directly to customers. Some MNOs have used interest from the money in the trust account for their own benefit, and the BOT has not seen a direct benefit for the system. However, it still wanted to find ways to scale up the use of e-money and provide a direct benefit to the actual owners of the trust account, particularly since the amount of stored value has grown significantly. Its circular clearly states that interest accrued in a trust account should benefit the beneficiary, and since telcos are given options, they could have complied by lowering the cost of e-money services instead.

Millicom Tigo's position is that earned interest belongs to the people who put their money into the system in the first place, so it fully supports distributing it directly to its customers. Greg Reeve reported that it has paid out US$ 10 million in accrued interest to date, and that it calls these payments 'returns' rather than interest since it recognizes it is not a bank.

WHEN SHOULD THE REGULATOR REQUIRE INTEROPERABILITY?



SHOULD NON-BANKS PAY INTEREST ON E-MONEY ACCOUNTS?



REGULATING FAIR DISTRIBUTION

In Ghana, MNOs are required to distribute 80% of interest to its customers. The Bank of Ghana had concluded it was not fair for MNOs to keep it all and it did not promote financial inclusion. However, it predicts the dispersal of interest will encourage more people to use the MNOs.

Consumer Protection Around Big Data

SPEAKERS

Armenuhi Mkrtchyan, Central Bank of Armenia; **Denise Dias,** World Bank; **Sue Lewis,** UK Financial Consumer Protection Panel; **Paul Breloff,** Accion Venture Labs

MODERATOR

Katharine McKee, CGAP

What is big data, what are the risks and benefits for consumers, and why are policymakers and regulators so interested in it? In this session, regulators and experts discussed the policy boundaries surrounding the use of big data, the enforcement of rules on competition and consumer protection, and stimulating market innovations for privacy-enhancing services.

As the world shifts to an increasingly digital landscape, the volume, variety and velocity of data being generated is greater than ever before, and technology and database tools now allow us to understand and draw connections between data in ways that were previously impossible.

But what about consumer protection and data privacy? What constitutes personal data and when should it be used? The traditional role of regulators has been to restrict the use of data and protect consumers, backed by privacy laws in many countries that restrict telcos, for example, from sharing customer data with third parties. However, regulators are now grappling with a new question: What if big data could be leveraged to improve KYC procedures, expand access to credit and other financial services, or design more suitable products for the unbanked?

From left to right: Denise Dias, Sue Lewis, Paul Breloff and Armenuhi Mkrtchyan

WHAT ARE THE POTENTIAL BENEFITS OF BIG DATA FOR CONSUMERS?

Big data is primarily being used for credit ratings, which is helping previously unbanked people access credit for the first time. Customers without prior access to credit are unscorable and therefore very hard to serve, said Paul Breloff of Accion Venture Labs, but using alternative data could bring the unbanked onboard. For example, 1.8 billion people have a mobile phone but no bank account. The transaction history on a mobile phone provides a great deal of data about a customer's payment history and phone usage, which could help financial institutions assess their capacity to repay a loan.

Denise Dias of the World Bank pointed out that big data can also enhance the suitability of financial products exponentially, and has the potential to generate much better client profiling and convert unprofitable clients into profitable ones. However, she warned against relying too much on the analytics of big data and losing sight of the individual.

Armenuhi Mkrtchyan of the Central Bank of Armenia warned that despite the benefits of big data, care must be taken to ensure that consumers are not unfairly targeted and forced into spending patterns in which they would not otherwise engage.

WILL BIG DATA LEAD TO FINANCIAL INCLUSION OR EXCLUSION?

50%	Financial inclusion
30%	Financial exclusion

DOES THE REGULATOR HAVE A ROLE TO PLAY IN ADDRESSING THE RISKS OF BIG DATA AND ALTERNATIVE DATA?

55%	Yes, a regulatory role
22%	Yes, a monitoring role
19%	No role

Consumer Protection Around Big Data continued

WHAT ARE THE RISKS OF BIG DATA FOR CONSUMERS?

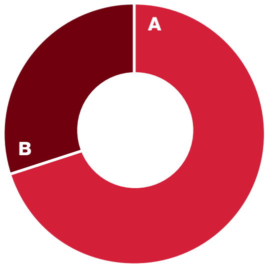
Breach and misuse of personal data. The main risk to consumers is having their personal data breached and misused. Panelists and audience members stressed the importance of consumers owning and controlling their own data, which may be possible with technology solutions, such as asking customers to select 'agree' before their data is shared.

Discrimination. Big data can be used to unfairly target consumers and discriminate on the basis of ethnicity, gender, financial behavior or savings habits. For example, credit reporting is traditionally based on credit history, but a customer who is a conservative saver could be denied a credit line for also being a conservative spender.

Unfair competition and market instability. If access to data is not properly regulated, big players can gain control of customer data in a short period of time. For example, if a telco is able to reach out to millions of bank customers and monopolize their data, this would lead to unfair competition and instability in the market in the long term.

There is still very little research to help us understand how big data will impact consumers, but panelists agreed that the more we can empower consumers to control how their data is used, the more we can mitigate the risks and the more we can achieve. All panelists agreed that big data is a topic that is here to stay, and its potential contribution to financial inclusion needs to be explored.

DOES YOUR COUNTRY USE BIG DATA WHEN LOOKING AT FINANCIAL INCLUSION TRENDS?



A	Yes	70%
B	No	30%

"We are looking at big data in a cautiously optimistic manner. You need information to extend credit prudently. It would be great to think about implementing a data management system and hard coding it into law to protect consumers."

Deputy Governor Nestor Espenilla, Jr.
Bangko Sentral ng Pilipinas

Katharine McKee, CGAP

Armenuhi Mkrtchyan, Central Bank of Armenia

Approaching Financial Inclusion's Last Frontier: Serving the Rural Poor

SPEAKERS

Paul Nduka Eluhaiwe, Central Bank of Nigeria; **Mark Adams,** One Acre Fund; **Esselina Macome,** Banco de Moçambique; **Mark Flaming,** MicroCred; **Superintendent Daniel Schydlowsky,** SBS Perú

MODERATOR

Greta Bull, CEO, CGAP

This session featured innovative, successful and scalable examples of financial services provision for the rural poor — financial inclusion's last frontier. It explored the challenges financial services providers face in capitalizing on innovations (technological or otherwise) to serve this hard-to-reach segment, and the role of financial regulators and other stakeholders in meeting the complex financial needs of the rural poor and supporting efforts to reach the last mile.

TACKLING INFRASTRUCTURE CHALLENGES IN MOZAMBIQUE

In Mozambique, where most people live in rural areas (69% of the population is considered rural), infrastructure is a big challenge. Banco de Moçambique has begun issuing regulations on banking agents and offering fiscal incentives to agents to open locations in rural areas. Digital financial services are in early stages and interoperability is a challenge, as is finding suitable products for rural clients, but the Bank hopes these efforts will produce results soon. As Esselina Macome of Banco de Moçambique said, "At the end of the day, we want people to get into the habit of saving."

REGULATION SHAPES THE BUSINESS MODEL IN MADAGASCAR AND SENEGAL

Microcred is a network of microfinance banks that is taking a new approach to distribution. In Madagascar and Senegal, high demand for banking services combined with convenient neighborhood agents and free services, have produced active customer rates higher than M-Pesa.

Approaching Financial Inclusion's Last Frontier

However, different regulations in each country have produced two different business models. In Senegal, the rollout of cash merchants has been quick since a payment service network was already in place, a lot of payment service agents were interested in becoming cash merchants for Microcred, and the financial regulator treated the rollout essentially the same as the rollout of a card network. In Madagascar, on the other hand, the regulator requires each agent to be licensed and meet certain eligibility requirements, one of which is that they cannot be the agent of a payment service provider. This has not only made it virtually impossible to find such agents in Madagascar, it has also created a less viable business model. The regulation of the mobile industry is also creating barriers to rolling out services, as mobile operators deny financial services providers access to the USSD channel.

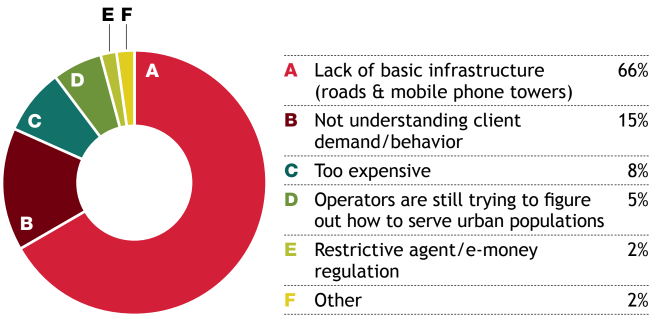
BUNDLING FINANCIAL SERVICES IN KENYA

One Acre Fund serves 200,000 rural clients and uses a "bundled approach" to financial services delivery that addresses several customer needs at once, such as allowing farming inputs to be delivered on credit at the time customers need it, and intensive training in farming techniques. It is engaging with MFIs to deliver parts of this bundle and wants to lower the barriers for MFIs to enter the farm service sector. Cooperation between agricultural and financial regulators is seen as one way to do this, such as including agro dealers in credit bureaus. In 2016, it plans to roll out M-Pesa to all farmers to repay their loans, which will improve the quality of services and help cut down on fraud.

PROMOTING A DIGITAL SHIFT IN PERU

In mountainous Peru, access to financial services is difficult, and expanding the internet network and telco coverage for mobile banking is essential. One of the keys to greater financial inclusion, said Superintendent Daniel Schydlowsky of SBS Perú, may be switching from cash to broad acceptance of digital payments. Being able to pay electronically, particularly for staples, would help create more elastic demand, drive down prices, and stabilize household income and expenditures. The hardest part, he said, is customer adoption — there is no technological solution to this and will require a social shift.

WHAT ARE THE BIGGEST OBSTACLES TO FINANCIAL INCLUSION FOR RURAL POPULATIONS?



Maya Declaration Progress Update

SPEAKERS

Mussah Kamara, Central Bank of Liberia; **Elvira Cruvinel Ferreira Ventura,** Banco Central do Brasil; **Gloria Grandolini,** World Bank; **Daniel Monehin,** MasterCard

MODERATOR

Njuguna Ndung'u, Former Governor, Central Bank of Kenya

This session reviewed the progress of the Maya Declaration to date, where we are in terms of meeting our commitments and whether financial inclusion outcomes are consistent with national strategies. It also addressed how to push the Maya Declaration to create stronger partnerships between AFI members, the private sector and global initiatives that are making a difference to financial inclusion.

MAYA DECLARATION PROGRESS REPORT: SNAPSHOTS OF SUCCESS

Banco Central do Brasil

In highly populated countries like Brazil, the success of a national financial inclusion strategy depends on building partnerships and aligning the interests of public and private sector stakeholders. Brazil's most notable achievements include creating a National Fund of Cooperatives, which allows members to have collateral for credit/loans; and a new action plan for the national strategy (to be released at the end of 2015) that includes targets for private initiatives and focuses on micro-entrepreneurs, access and usage of financial services, financial education and consumer protection.

Central Bank of Liberia

Liberia recently concluded its five-year financial inclusion strategy and has pledged the following commitments to the Maya Declaration:

> Scale up the use of mobile money to 50% by December 2014 (this goal has not been achieved due to economic instability in the country)
> Improve mobile money governance — a new regulation on mobile money has been implemented, allowing everybody to use this service
> Develop a comprehensive consumer protection regulation
> Scale up financial services to rural areas
> Improve the quality of data

By the first half of 2015, over 70% of all targets set under the Maya Declaration have been achieved. About 40% of these targets focus on digital financial services.

"The commitments to the Maya Declaration — and now the Maputo Accord — are continuous. Financial inclusion strategies are the first step; they then need to be followed by action plans, implementation and monitoring of the commitments."

Elvira Ventura
Banco Central do Brasil

MasterCard

Daniel Monehin described how, as a service provider and enabler and facilitator of technology, MasterCard has been working with AFI member institutions to achieve their Maya Declaration commitments. For example:

> In Kenya, the Central Bank wanted to create a policy on payments and, through its advisers, MasterCard was able to develop the payment policy which is now in advanced stages of implementation.
> In Nigeria, the government decided to implement an ID system that used the VPN System, and MasterCard partnered with them to develop the product, accruing no costs for the government.
> In Zimbabwe, a mobile banking product was developed that allows customer to link their MasterCard to a mobile wallet, allowing them to use MasterCard whenever they travel across borders.

World Bank

Gloria Grandolini described how the World Bank has been partnering with private sector partners to build a framework for financial inclusion. The framework is based on two main pillars, which are in line with the goals of the Maya Declaration and most national strategies for financial inclusion: creating an enabling environment for access to finance and driving access to finance. To help achieve global financial access, the World Bank will be supporting countries to draft national financial inclusion strategies.

NEW MAYA DECLARATION COMMITMENTS

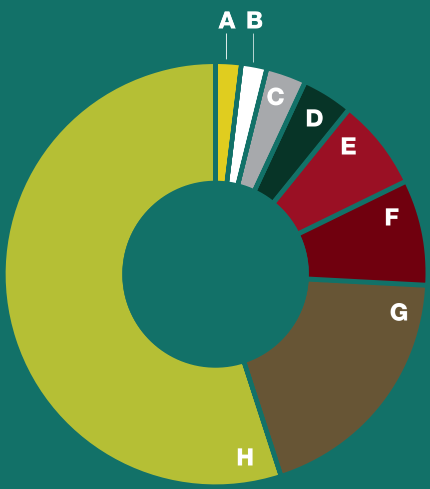
In this session, AFI updated the Maya Declaration commitments made up until 2014, and AFI members announced new commitments to the Maya Declaration and the Maputo Accord. The Superintendencia General De Entidades Financieras de Costa Rica, Central Bank of Suriname and National Reserve Bank of Tonga all made new commitments. Tonga's commitment focuses on developing and improving access to SME finance, in line with the Maputo Accord. Costa Rica's commitment is to develop a national strategy, enhance the regulatory framework for digital financial services, and develop financial inclusion indicators to strengthen monitoring and evaluation.

All Maya Declaration commitments are available on the AFI website: **www.MayaDeclaration.org**

GPF by the Numbers

502 Registered Participants
168 Institutions
72 Countries

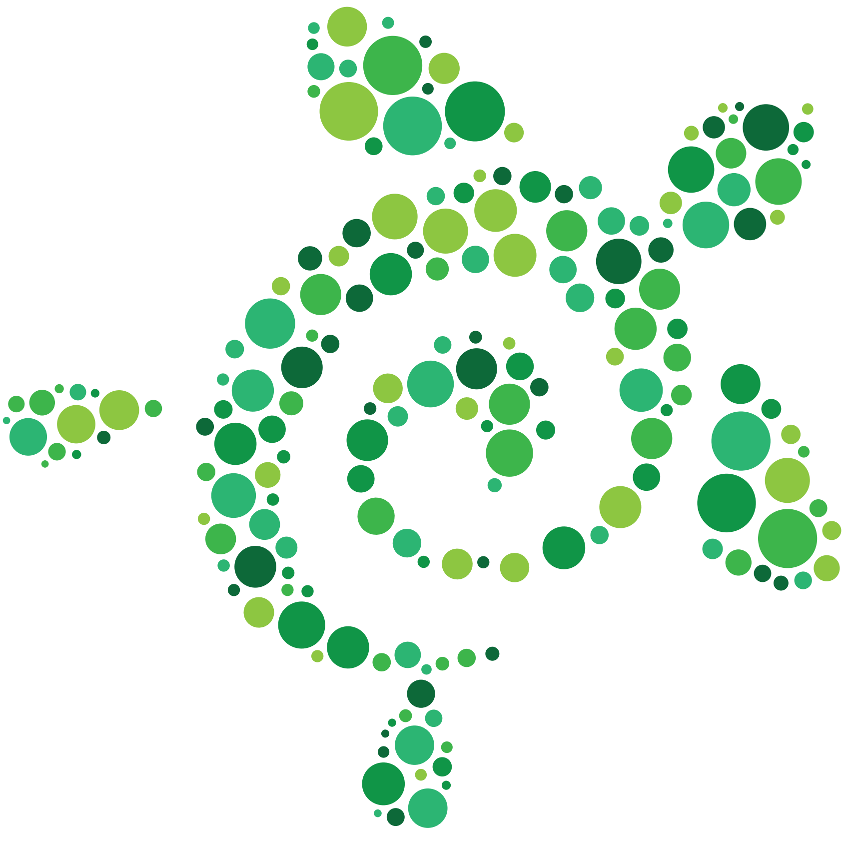
A GLOBAL AUDIENCE



A	Western Europe	2%
B	Middle East & North Africa	2%
C	Eastern Europe & Central Asia	3%
D	The Pacific	4%
E	Latin America & the Caribbean	7%
F	North America	8%
G	Asia	19%
H	Sub-Saharan Africa	55%

The GPF gong begins its journey to the Pacific

The session concluded with the announcement that the 2016 AFI Global Policy Forum will be hosted by the **Reserve Bank of Fiji together with members of Pacific Islands Regional Initiative (PIRI) in Nadi, Fiji**.



THE 2015
AFI GLOBAL
POLICY FORUM

INSPIRING INNOVATION
TO ADVANCE INCLUSION

1-4 September 2015, Maputo, Mozambique

Alliance for Financial Inclusion
AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 **e** info@afi-global.org www.afi-global.org
www.facebook.com/AFI.History @NewsAFI